

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Unit Name	TOWNSHIP OF LIMA	County	WASHTENAW	Type	TOWNSHIP	Municode	
Opinion Date	JUNE 10, 2008	Audit Submitted	July 17, 2008	Fiscal Year	MARCH 31, 2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1.	Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2.	Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3.	Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4.	Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5.	Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6.	Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7.	Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8.	Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9.	Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10.	Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11.	Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12.	Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13.	Is the audit opinion unqualified? 14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15.	Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16.	Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17.	To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18.	Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue	\$ 673,334	General Fund Balance	\$ 486,769
General Fund Expenditure	560,068	Governmental Activities Long-Term Debt (see instructions)	171,849
Major Fund Deficit Amount	-0-		

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) Karl L.	Last Name Drake	Ten Digit License Number 1101016526			
CPA Street Address 3775 Kimmel Rd	City Horton	State MI	Zip Code 49246	Telephone 517-937-9333	
CPA Firm Name Karl L. Drake, P.C.	Unit's Street Address 3775 Kimmel Rd		City Horton		Zip Code 49246

**TOWNSHIP
OF
LIMA**

FINANCIAL STATEMENTS

MARCH 31, 2008

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

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3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com

INDEPENDENT AUDITOR'S REPORT

Township Board
Township of Lima
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Lima, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Lima's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Lima as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2008, on our consideration of the Township of Lima's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Township Board
Township of Lima

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 23 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Lima's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in dark ink, reading "Karl L. Drake". The signature is written in a cursive, flowing style.

Karl L. Drake, P.C.
Certified Public Accountant

June 10, 2008

This section of the Township of Lima's annual financial report presents discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008. It is best read in conjunction with the Township's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Township of Lima financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the entire Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund - the General Fund - with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent for the benefit of others.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

Reporting The Township As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Township.

The statement of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including general government, public safety, roads, and community enrichment. Property taxes and State Revenue Sharing finance most of these activities.

Reporting The Township's Most Significant Funds - Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by State law and by bond covenants. However, the Township establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

Governmental funds - All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Reporting The Township's Fiduciary Responsibilities -The Township As Trustee

The Township is the trustee, or fiduciary, for its tax collection and agency funds. All of the Township's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Township As A Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table I provides a summary of the Township's net assets as of March 31, 2008 and 2007:

TABLE I	Governmental Activities	
	(In Thousands)	
	2008	2007
ASSETS		
Current and other assets	\$ 573.1	\$ 505.1
Capital assets - Net of accumulated depreciation	204.4	199.8
TOTAL ASSETS	777.5	704.9
LIABILITIES		
Current liabilities	108.2	154.2
Long-term liabilities	149.9	163.6
TOTAL LIABILITIES	258.1	317.8
NET ASSETS		
Invested in property and equipment - Net of related debt	32.6	13.6
Restricted	---	0.0
Unrestricted	486.7	373.5
TOTAL NET ASSETS	\$ 519.3	\$ 387.1

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. Township's net assets were \$519.3 thousand at March 31, 2008. Capital assets, net of related debt totaling \$32.6 thousand compares the original cost, less depreciation of the Township's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Township's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$486.7 thousand) was unrestricted.

The \$486.7 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ending March 31, 2008 and 2007.

TABLE 2	Governmental Activities (In Thousands)	
	2008	2007
REVENUE		
Program Revenue		
Charges for services	\$ 28.7	\$ 94.3
Grants and categoricals	---	0.0
General Revenue		
Property taxes	383.6	340.5
State Shared Revenue	173.2	171.7
Other	87.8	95.4
TOTAL REVENUE	\$ 673.3	\$ 701.9

FUNCTION/PROGRAM EXPENSES	(In Thousands)	
	2008	2007
General Government	\$ 209.2	\$ 222.0
Public Safety	266.9	276.3
Public Works	45.6	26.5
Community Enrichment	0.7	0.7
Interest on Long-Term Debt	9.1	9.8
Depreciation (unallocated)	9.6	8.8
TOTAL FUNCTION/PROGRAM EXPENSES	541.1	544.1
INCREASE <DECREASE> IN NET ASSETS	\$ 132.2	\$ 157.8

As reported in the statement of activities, the cost of all of our governmental activities this year was \$541.1 thousand. Certain activities were partially funded from those who benefited from the programs (\$28.7 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of our governmental activities was paid with \$383.6 thousand in taxes, \$173.2 thousand in State Revenue Sharing, and with our other revenues, such as interest and general entitlements.

The Township experienced an increase in net assets of \$132.2 thousand. The key reason for the change in net assets was a special assessment for fire protection. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State Revenue Sharing constitute the vast majority of the Township's operating revenue sources, the Township Board must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

The Township's Funds

As noted earlier, the Township uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$486.8 thousand, which is an increase of \$113.3 thousand from last year. The primary reason for the increase is a special assessment for fire protection. The General Fund, the principal operating fund, saw the fund balance increase \$133,266 to \$486,769, which is an improvement over the budgeted decrease of \$110,516.

General Fund Budgetary Highlights

Over the course of the year, the Township amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset And Debt Administration

Capital Asset

At March 31, 2008, the Township had \$204.4 thousand invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$4,692 or 2 percent, from last year.

	2008	2007
Land	\$ 71,675	\$ 71,675
Buildings	151,591	151,591
Vehicles	---	---
Equipment	32,487	30,577
Total Capital Assets	255,753	253,843
Less Accumulated Depreciation	51,312	54,094
Net Capital Assets	<u>\$ 204,441</u>	<u>\$ 199,749</u>

More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the Township's 2008-09 fiscal year budget.

Because the Township's revenue is heavily dependent on State Shared Revenue, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Townships. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

The Township's budget is very similar to the prior year. The budget includes special assessment Millage for fire protection. The Township's taxable value will be higher, increasing the property tax revenues. Expenditures for fire safety will continue to increase.

Contacting The Township's Financial Management

This financial report is designed to provide the Township's citizens, taxpayers, customers, investors and creditors of the Township of Lima with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township Clerk, P.O. Box 59, Chelsea, Michigan 48118.

TOWNSHIP OF LIMA

Government-Wide Financial Statements

STATEMENT OF NET ASSETS

March 31, 2008

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 522,140
Accounts Receivable	31,738
Prepaid Expenditures	19,212
Total Current Assets	573,090
Non-current Assets	
Capital Assets	255,753
Less: Accumulated Depreciation	-51,312
Total Non-current Assets	204,441
TOTAL ASSETS	\$ 777,531
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current Liabilities	
Current Portion of Bonds and Notes Payable	\$ 13,634
Accounts Payable	6,784
Accrued Interest	8,248
Deferred Revenue	79,537
Total Current Liabilities	108,203
Non-current Liabilities	
Bonds and Notes Payable (Net of Current Portion)	149,967
Compensated Absences and Severance Pay	---
Total Non-current Liabilities	149,967
TOTAL LIABILITIES	258,170
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	32,592
Restricted for Debt Service	---
Unrestricted	486,769
TOTAL NET ASSETS	519,361
TOTAL LIABILITIES AND NET ASSETS	\$ 777,531

See Accompanying Notes to Financial Statements

Government-Wide Financial Statements**STATEMENT OF ACTIVITIES****YEAR ENDED MARCH 31, 2008**

		Program Revenues		Governmental Activities
		Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
	Expenses			
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 209,158	\$ ---	\$ ---	\$ -209,158
Public Safety	266,928	28,650	---	-238,278
Public Works	45,647	---	---	-45,647
Community Enrichment	650	---	---	-650
Interest on Long-Term Debt	9,051	---	---	-9,051
Depreciation (Unallocated)	9,622	---	---	-9,622
Total Governmental Activities	<u>\$ 541,056</u>	<u>\$ 28,650</u>	<u>\$ ---</u>	<u>\$ -512,406</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 140,881
Property Taxes, Levied for Fire Service				242,771
State of Michigan Aid, Unrestricted				173,169
Interest Earnings				9,833
Other				<u>78,030</u>
Total General Revenue				<u>644,684</u>
CHANGE IN NET ASSETS				132,278
NET ASSETS - BEGINNING OF YEAR				<u>387,083</u>
NET ASSETS - END OF YEAR				<u><u>\$ 519,361</u></u>

See Accompanying Notes to Financial Statements.

TOWNSHIP OF LIMA

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

MARCH 31, 2008

	General	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 522,140	\$ ---	\$ 522,140
Accounts Receivable	27,589	---	27,589
Due from Other Governmental Units	---	---	---
Due from Other Funds	4,149	---	4,149
Inventories	---	---	---
Prepaid Expenditures	19,212	---	19,212
TOTAL ASSETS	\$ 573,090	\$ ---	\$ 573,090
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 6,784	\$ ---	\$ 6,784
Due to Other Funds	---	---	---
Deferred Revenue	79,537	---	79,537
TOTAL LIABILITIES	86,321	---	86,321
FUND BALANCES			
Reserved for Inventories	---	---	---
Unreserved, Designated	---	---	---
Unreserved and Undesignated	486,769	---	486,769
TOTAL FUND BALANCES	486,769	---	486,769
TOTAL LIABILITIES AND FUND BALANCES	\$ 573,090	\$ ---	\$ 573,090

TOTAL GOVERNMENTAL FUND BALANCES \$ 486,769

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds:

Cost of the Capital Assets is	255,753
Accumulated Depreciation is	-51,312
	<u>204,441</u>

Long-term Liabilities are not due and payable in the current period and are not reported in the fund

Bonds and Notes Payable	-163,601
Compensated absences	---

Accrued interest is not included as a liability in governmental funds	<u>-8,248</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 519,361

See Accompanying Notes to Financial Statements.

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED MARCH 31, 2008

	General	Other Funds	Totals
REVENUE			
Property Taxes	\$ 383,652	\$ ---	\$ 383,652
State Grants	173,169	---	173,169
Permits and Licenses	28,650	---	28,650
Interest	9,833	---	9,833
Other	78,030	---	78,030
TOTAL REVENUE	673,334	---	673,334
EXPENDITURES			
General Government	210,717	---	210,717
Public Safety	266,928	---	266,928
Public Works	45,647	---	45,647
Recreational and Cultural	650	---	650
Debt Service	23,371	---	23,371
Capital Outlay	12,755	---	12,755
TOTAL EXPENDITURES	560,068	---	560,068
EXCESS OF REVENUE OVER EXPENDITURES	113,266	---	113,266
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
NET CHANGE IN FUND BALANCES	113,266	---	113,266
FUND BALANCES - BEGINNING OF YEAR	373,503	---	373,503
FUND BALANCES - END OF YEAR	\$ 486,769	\$ ---	\$ 486,769

See Accompanying Notes to Financial Statements.

TOWNSHIP OF LIMA

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 113,266**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-9,622	
Capital Outlay	<u>14,314</u>	4,692

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 687

- Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 13,633

- Uncollected property tax revenue is deferred in the governmental funds, but not in the statement of activities ---

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 132,278**

STATEMENT OF NET ASSETS**MARCH 31, 2008****ASSETS**

Cash and Cash Equivalents	\$ 210,493
Accounts Receivable	---

TOTAL ASSETS	<u>\$ 210,493</u>
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LIABILITIES

Due to Other Funds	\$ 4,149
Due to Other Entities	---
Due to Other Taxing Units	206,344

TOTAL LIABILITIES	<u><u>\$ 210,493</u></u>
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Township of Lima covers an area of approximately 36 square miles located in Washtenaw County, Michigan. The Township operates under an elected Board of Trustees consisting of five members and provides various services to its residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds - These funds, used to account for assets held in trust or as an agent for others, include Current Tax Collection Fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

NOTES TO FINANCIAL STATEMENTS

C. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Real and personal property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the subsequent year. Taxes are due and payable as of February 14. The property tax revenue in the accompanying financial statements was recognized as that levied during the year.

All unpaid taxes become delinquent after February 28, at which time the uncollected real taxes are returned to Washtenaw County for collection and to be added to the delinquent tax rolls. The County of Washtenaw purchases delinquent real property taxes of the Township of Lima. The County sells tax notes, the proceeds of which are used to pay the Township for the taxes. This is expected to take place in June 2008. These taxes have been recorded as revenue for the current year.

The Township is authorized to assess 1 mill for general operations and 1.5 mills for fire protection. Millage rates levied for 2007 were .8191 mills for operations and 1.5 mills for fire protection. Total taxable value of real and personal property in the Township was \$172,556,239.

The Township is responsible for the collection of delinquent personal property taxes.

E. CASH EQUIVALENTS

The Township considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Township does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. streets, bridges, drains) are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Vehicles	5-20 years
Equipment	5-20 years

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Township, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township is in compliance with State law regarding their cash deposits.

The Township maintains all of its cash deposits at one bank.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured & Uncollateralized	632,633	675,036
Total Deposits	<u>\$ 732,633</u>	<u>\$ 775,036</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at March 31, 2008.

NOTE 4 - DUE TO/FROM OTHER FUNDS

Due to/due from at March 31, 2008, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	<u>\$ 4,149</u>	Tax Collection	<u>\$ 4,149</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Township's Governmental activities was as follows:

	Balance April 1, 2007	Additions	Disposals and Adjustments	Balance March 31, 2008
Assets not being depreciated:				
Land	\$ 71,675	\$ ---	\$ ---	\$ 71,675
Capital assets being depreciated:				
Buildings	151,591	---	---	151,591
Vehicles	---	---	---	---
Equipment	30,577	14,314	12,404	32,487
Subtotal	182,168	14,314	12,404	184,078
Accumulated depreciation:				
Buildings	28,964	7,540	---	36,504
Vehicles	---	---	---	---
Equipment	25,130	2,082	12,404	14,808
Subtotal	54,094	9,622	12,404	51,312
Net capital assets being depreciated	128,074	4,692	---	132,766
Net capital assets	<u>\$ 199,749</u>	<u>\$ 4,692</u>	<u>\$ ---</u>	<u>\$ 204,441</u>

Depreciation expense was not charged to activities as the Township considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended March 31, 2008, the Township incurred no expenditures that were in excess of the amounts budgeted.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RETIREMENT PLAN

The Township has a defined contribution retirement plan through Michigan Municipal Employees Retirement System. The Township's contribution for the year ended March 31, 2008 was \$9,768, which was 11.08% of qualifying wages of \$88,159.

NOTE 8 - ACCUMULATED SICK AND VACATION PAY

Amounts accumulated for accrued sick and vacation pay are immaterial and have not been entered in the accounting records.

NOTE 9 - RISK MANAGEMENT AND LITIGATION

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Township has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At March 31, 2008, no claims exist, and no provision has been entered into the accounting records.

NOTE 10 - INSTALLMENT NOTE PAYABLE

On September 4, 2004, the Township entered an installment purchase agreement with a bank for the purchase of real property. The agreement calls for 15 annual payments on May 1 through 2019. These payments include interest at 5.5%. The outstanding loan balance at March 31, 2008 was \$177,234. Future obligations are as follows:

Year ending March 31,	2009	\$ 13,634	\$ 8,998	\$ 22,632
	2010	13,633	8,248	21,881
	2011	13,633	7,498	21,131
	2012	13,634	6,748	20,382
	2013	13,633	5,999	19,632
	2014	13,633	5,249	18,882
	2015	13,634	4,499	18,133
	2016	13,633	3,749	17,382
	2017	13,633	2,999	16,632
	2018	13,634	2,249	15,883
	2019	13,633	1,500	15,133
	2020	13,634	750	14,384
		<u>\$ 163,601</u>	<u>\$ 58,486</u>	<u>\$ 222,087</u>

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF LIMA

General Fund

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED MARCH 31, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ 370,000	\$ 370,000	\$ 383,652	\$ 13,652
State Shared Revenue	172,500	172,500	173,169	669
Permits and Licenses	40,000	40,000	28,650	-11,350
Interest	2,000	2,000	9,833	7,833
Other	137,500	137,500	78,030	-59,470
Transfers In	---	---	---	---
TOTAL REVENUE	722,000	722,000	673,334	-48,666
EXPENDITURES				
General Government	310,900	310,900	210,717	100,183
Public Safety	422,100	422,100	266,928	155,172
Public Works	39,500	48,816	45,647	3,169
Recreation and Culture	700	700	650	50
Debt Service	25,000	25,000	23,371	1,629
Capital Outlay	25,000	25,000	12,755	12,245
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	823,200	832,516	560,068	272,448
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-101,200	-110,516	113,266	223,782
BUDGETARY FUND BALANCE - APRIL 1, 2007	373,503	373,503	373,503	---
BUDGETARY FUND BALANCE - MARCH 31, 2008	\$ 272,303	\$ 262,987	\$ 486,769	\$ 223,782

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Taxes - General	\$ 135,000	\$ 140,881	\$ 5,881
Special Assessment - Fire	235,000	242,771	7,771
State Shared Revenue	172,500	173,169	669
Reimbursements	15,000	2,383	-12,617
Permits and Licenses	40,000	28,650	-11,350
Interest	2,000	9,833	7,833
Consultant Fee Deposits	60,000	---	-60,000
Administrative Fees	53,000	58,055	5,055
Tax Collection Fees	3,500	4,635	1,135
Telecommunication Fees	4,000	11,738	7,738
Miscellaneous	2,000	1,219	-781
TOTAL REVENUE	722,000	673,334	-48,666
EXPENDITURES			
GENERAL GOVERNMENT			
<u>Executive</u>			
Trustees	5,800	5,800	---
Supervisor	23,800	23,800	---
Assessor	30,500	25,878	4,622
Mileage	4,100	3,425	675
Training	1,500	2,143	-643
Memberships	100	25	75
Contracted Services	2,000	4,879	-2,879
Miscellaneous	500	105	395
<u>Elections</u>			
Salaries	4,000	2,043	1,957
Supplies	3,500	2,216	1,284
<u>Finance</u>			
Clerk	23,800	23,800	----
Treasurer	23,800	23,800	---
Secretary	16,000	10,402	5,598
Board of Review	1,200	1,337	-137
Payroll Taxes	3,000	2,741	259
Retirement	12,000	9,768	2,232
Office Supplies	7,000	6,433	567
Printing	6,000	1,841	4,159
Professional Fees	60,000	21,480	38,520
Contracted Services	6,000	1,381	4,619
Insurance	37,000	20,652	16,348
Mileage	5,000	4,066	934
Training	2,000	529	1,471
Miscellaneous	500	---	500

	Budget	Actual	Variance Favorable <Unfavorable>
GENERAL GOVERNMENT (CONTINUED)			
<u>Township Hall</u>			
Supplies	\$ 300	\$ 108	\$ 192
Maintenance	20,000	3,242	16,758
Utilities	7,000	4,833	2,167
<u>Other</u>			
Tax Refunds	500	493	7
Dues	4,000	3,497	503
TOTAL GENERAL GOVERNMENT	310,900	210,717	100,183
PUBLIC SAFETY			
<u>Fire Safety</u>	270,000	248,005	21,995
<u>Planning</u>			
Salaries	10,000	6,245	3,755
Zoning Administrator	20,000	11,441	8,559
Supplies	1,000	64	936
Printing	7,000	---	7,000
Professional Fees	110,000	---	110,000
Training	3,000	570	2,430
Mileage	600	193	407
Miscellaneous	500	410	90
TOTAL PUBLIC SAFETY	422,100	266,928	155,172
PUBLIC WORKS			
Roads	29,316	29,316	---
Sanitation	4,000	2,062	1,938
Recycling	500	1,665	-1,165
Drains	15,000	12,604	2,396
TOTAL PUBLIC WORKS	48,816	45,647	3,169
RECREATION AND CULTURAL			
Culture	700	650	50
DEBT SERVICE	25,000	23,371	1,629
CAPITAL OUTLAY	25,000	12,755	12,245
TOTAL EXPENDITURES	832,516	560,068	272,448
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-110,516	113,266	223,782
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers <Out>	---	---	---
EXCESS OF REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	-110,516	113,266	223,782
FUND BALANCE April 1, 2007	373,503	373,503	---
FUND BALANCE - MARCH 31, 2008	\$ 262,987	\$ 486,769	\$ 223,782

TOWNSHIP OF LIMA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

MARCH 31, 2008

	Balance 04/01/07	Additions	Deductions	Balance 03/31/08
CURRENT TAX COLLECTION FUND				
ASSETS				
Cash in Bank	\$ 117,967	\$ 5,931,127	\$ 5,838,601	\$ 210,493
Due from Other Funds	---	---	---	---
TOTAL ASSETS	\$ 117,967	\$ 5,931,127	\$ 5,838,601	\$ 210,493
LIABILITIES				
Due to Other Funds	\$ 4,192	\$ 436,502	\$ 436,545	\$ 4,149
Due to Other Taxing Units	113,775	5,494,625	5,402,056	206,344
TOTAL LIABILITIES	\$ 117,967	\$ 5,931,127	\$ 5,838,601	\$ 210,493

**3775 Kimmel Road
Horton, Michigan 49246**

**(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Township Board
Township of Lima

We have audited the financial statements of the governmental activities and each major fund of the Township of Lima, as of and for the year ended March 31, 2008, which collectively comprise the Township of Lima's basic financial statements and have issued our report thereon dated June 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Lima's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Lima's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Lima's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Lima's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Lima's financial statements that is more than inconsequential will not be prevented or detected by the Township of Lima's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Lima's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Lima's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management, the Township Board, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake PC
Certified Public Accountant

June 10, 2008

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road
Horton, Michigan 49246

(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com

June 10, 2008

Township Board
Township of Lima
11452 Jackson Road, P.O. Box 59
Chelsea, Michigan 48118

I have recently completed the audit of the Township of Lima for the year ended March 31, 2008, and would like to take this opportunity to make the following comments and recommendations.

Financial Summary

The general Fund completed the year with a fund balance of \$486,769. This is an increase of \$113,266 over the prior year level. This increase can be directly traced to the fire special assessment taxes that were received this past year. The total amount received from the fire taxes was \$242,771.

The government-wide financial statements, which include fixed assets, depreciation and long-term debt demonstrate the Township remains in stable financial position. The net assets at the end of the fiscal year were \$519,361, which is an increase of \$132,278 over the prior year.

Thank you for the opportunity to work with the Township.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, CPA